

Message Text

SECRET

PAGE 01 STATE 219928
ORIGIN SS-25

INFO OCT-01 ISO-00 SSO-00 /026 R

DRAFTED BY TREASURY:FBERGSTEN:PB
APPROVED BY E:RNCOOPER
S/S-O: WFROPE
ARA - VVAKY
NEA - WCRAWFORD

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R 300037Z AUG 78
FM SECSTATE WASHDC
TO AMEMBASSY TEHRAN
AMEMBASSY CARACAS

S E C R E T STATE 219928

EXDIS - FOR AMBASSADOR FROM COOPER AND SOLOMON

E.O. 11652: GDS

TAGS: ENRG, EFIN, VE, IR

SUBJECT:OPEC PRICES AND CURRENCY BASKET

1. YOU WILL BE AWARE OF SPECULATION IN THE PRESS OVER THE PAST MONTH OR SO, SPARKED BY STATEMENTS BY KUWAIT OIL MINISTER AL-SABAH, OF POSSIBILITY OF OPEC DECISION TO SHIFT OIL PRICING FROM DOLLAR TO A BASKET OF CURRENCIES AND POSSIBILITY OF A QUOTE EMERGENCY UNQUOTE SESSION OF OPEC NEXT MONTH TO CONSIDER THIS ISSUE AND AN IMMEDIATE OIL PRICE INCREASE. MOST RECENTLY, CROWN PRINCE FAHD HAS PUBLICLY EXPRESSED STRONG OPPOSITION TO THESE PROPOSALS, MAKING THE FOLLOWING POINTS: (A) SAUDI ARABIA AT PRESENT IS NOT ABOUT TO ACCEPT THE PROPOSAL FOR REPLACING THE DOLLAR WITH A BASKET OF CURRENCIES FOR OIL PRICING, BELIEVES THIS QUESTION REQUIRES QUOTE VERY LONG UNQUOTE STUDY, SEES THE
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DOLLAR TO BE THE MOST IMPORTANT WORLD CURRENCY AND EXPEC;S IT TO REGAIN ITS STRENGTH BEFORE THE END OF THE YEAR; (B) SAUDI ARABIA'S VIEW IS THAT OIL PRICES SHOULD NOT BE RAISED AS LONG AS THE PRICES OF WORLD CONSUMER GOODS ARE NOT GETTING OBVIOUSLY INFLATED AND THAT THERE WILL BE NO OIL PRICE RISE UNLESS THERE ARE EXCEPTIONAL CIRCUMSTANCES.

2. EARLIER PRESS REPORTS CONTRIBUTED SIGNIFICANTLY TO EXCHANGE MARKET SPECULATION AND DISORDER, AND FAHD STATEMENT OF SAUDI VIEWS SHOULD HELP TO ALLEVIATE SITUATION AND CONTRIBUTE TO GREATER CALM IN EXCHANGE MARKETS. WE BELIEVE IT IMPORTANT THAT WE NOW PRESS IRAN AND VENEZUELA TO TAKE SIMILAR POSITIONS IN OPPOSITION TO SHIFT IN PRICING TECHNIQUE AND EARLY OIL PRICE INCREASE, AND REQUEST THAT YOU TAKE EARLIEST OPPORTUNITY TO MAKE THE FOLLOWING POINTS AT HIGHEST LEVEL YOU CONSIDER APPROPRIATE.

A. RECENT PRESS SPECULATION BOTH OF POSSIBLE SHIFT IN OIL PRICING METHOD AND OF EARLY ACTION TO RAISE OIL PRICES HAS CONTRIBUTED TO EXCHANGE MARKET SPECULATION AND DISORDER.

B. RE OIL PRICING TECHNIQUES. THE CHOICE OF THE UNIT FOR PRICING OIL IS, OF COURSE, A DECISION FOR THE PRODUCING COUNTRIES. HOWEVER, IT IS OBVIOUS THAT THE VALUE OF THE DOLLAR, THE SDR AND ALL OTHER UNITS OF ACCOUNT FLUCTUATE DAILY, AND NO UNIT CAN PROVIDE COMPLETE PROTECTION AGAINST EXCHANGE RATE MOVEMENTS.

C. WE RECOGNIZE THAT EXCHANGE MARKET DEVELOPMENTS HAVE CREATED SOME PROBLEMS FOR OPEC, BUT THERE IS NO REASON TO ANTICIPATE A LONG-TERM DEPRECIATION OF THE DOLLAR IN TERMS OF THE SDR.

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-- SINCE THE BASKET METHOD OF VALUING THE SDR WAS ADOPTED IN JULY 1974, THE DOLLAR VALUE OF THE SDR HAS FLUCTUATED WITHIN A 12 AND ONE-HALF PERCENT RANGE.

-- IF SDR PRICING FOR OIL HAD BEEN IN EFFECT OVER THE FOUR YEARS SINCE THE BASKET VALUATION WAS ADOPTED, OIL REVENUES WOULD HAVE BEEN LOWER THAN WITH DOLLAR PRICING (I.E., THE DOLLAR APPRECIATED ON AVERAGE BY ABOUT ONE AND ONE HALF PERCENT AGAINST THE SDR). IF SDR PRICING HAD BEEN ADOPTED IN JUNE 1975 AT THE THEN PREVAILING SDR/DOLLAR RATE, SUBSEQUENT OPEC REVENUES WOULD HAVE BEEN ABOUT \$15-20 BILLION LOWER THAN WITH DOLLAR PRICING.

D. IN ANY CASE, A SHIFT AWAY FROM DOLLAR PRICING IN CURRENT MARKET CONDITIONS WOULD HAVE AN ADVERSE PSYCHOLOGICAL EFFECT. THE PRESSURE ON THE DOLLAR WHICH DEVELOPED FOLLOWING REPORTS OF THE JULY 14 MEETING OF OPEC EXPERTS IS INDICATIVE OF THE POTENTIAL DANGERS.

E. RE POSSIBLE EARLY INCREASE IN PRICE OF OIL, WE BELIEVE SUCH ACTION IS NOT JUSTIFIED AND COULD HARM PROSPECTS

BOTH FOR STABLE WORLD ECONOMIC GROWTH AND FOR THE
STRENGTHENING OF DOLLAR. THE ANNOUNCEMENT OF QUOTE
EMERGENCY UNQUOTE SESSION TO CONSIDER AN INCREASE COULD

ITSELF CREATE SUBSTANTIAL SPECULATION AND DISORDER IN
EXCHANGE MARKETS. (WE RECOGNIZE SOME DECISION WILL HAVE
TO BE TAKEN AT THE OPEC MEETING NOW SCHEDULED FOR DECEMBER
AND WILL WANT TO TALK FURTHER TO OPEC MEMBERS ABOUT THIS
AT A LATER DATE.)

F. WE RECOGNIZE THAT RECENT EXCHANGE MARKET DEVELOPMENTS
HAVE REDUCED THE DOLLAR'S CURRENT PURCHASING POWER
RELATIVE TO THAT OF OTHER MAJOR CURRENCIES. THE
PRESIDENT HAS INDICATED HIS SERIOUS CONCERN OVER THE
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ADVISORS TO RECOMMEND MEASURES TO DEAL WITH THAT SITUATION.
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NEXT FEW WEEKS.

G. WE BELIEVE THE PROSPECTS FOR THE U.S. BALANCE OF
PAYMENTS AND THE DOLLAR ARE CONSIDERABLY IMPROVED AND WILL
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RATE MOVEMENTS THAT HAVE TAKEN PLACE, WE BELIEVE THERE IS
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THE TRADE AND CURRENT POSITION DURING THE REMAINING MONTHS
OF 1978 AND THROUGHOUT 1979. THE CURRENT ACCOUNT DEFICIT
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THE VERY HIGH LEVELS OF \$15 BILLION IN 1977 AND AN ANNUAL
RATE OF \$28 BILLION DURING THE FIRST QUARTER OF 1978.
HOWEVER, SUCCESS OF OUR EFFORTS, WHICH ARE IN OPEC'S AS
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PAGE 01 STATE 219928
ORIGIN SS-15

INFO OCT-01 ISO-00 SSO-00 /016 R

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DRAFTED BY:NEA/RA:HAENGELBRECHT

APPROVED BY:NEA:AKORKY

E:EMORSE

NEA/RA:WDOZIER

S/S-O:JTHYDEN

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R 081105Z SEP 78

FM SECSTATE WASHDC

INFO RUFHRS/AMEMBASSY ALGIERS 0000

USINT BAGHDAD

AMEMBASSY KUWAIT

AMEMBASSY TRIPOLI

AMEMBASSY DOHA

AMEMBASSY ABU DHABI

AMEMBASSY JIDDA

S E C R E T STATE 219928

EXDIS

FOLLOWING REPEAT STATE 219928 SENT ACTION TEHRAN CARACAS
AUG 30.

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TAGS: ENRG, EFIN, VE, IR, OPEC
To: TEHRAN CARACAS
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